

# Ergon Energy Corporation Limited

Submission on the *Cost Thresholds for the  
Regulatory Investment Test for  
Transmission*

Issues Paper

Australian Energy Regulator

21 August 2012





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the Regulatory Investment Test for Transmission*  
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## 1. INTRODUCTION

Ergon Energy Corporation Limited (Ergon Energy), in its capacity as a Distribution Network Service Provider (DNSP) in Queensland, welcomes the opportunity to provide comment to the Australian Energy Regulator (AER) on its *Cost Thresholds Review for the Regulatory Investment Test for Transmission Issues Paper* (Issues Paper).

Ergon Energy has previously provided input into the Australian Energy Market Commission's (AEMC) *Distribution Network Planning and Expansion Framework Draft Determination* in relation to responsibility for carrying out the Regulatory Investment Test for Transmission (RIT-T). Ergon Energy does not believe that DNSPs should be responsible for carrying out the RIT-T, as this test differs considerably to the Regulatory Investment Test for Distribution, and DNSPs are not equipped nor have sufficient resources to undertake both tests. For joint planning, Ergon Energy believes the TNSP should be deemed the lead party, unless otherwise agreed between parties.

Nonetheless, if this approach is adopted, Ergon Energy believes that the \$5 million and \$35 million cost thresholds are no longer appropriate and should be increased accordingly. In relation to input costs, Ergon Energy agrees that indexation based on historical data is preferable. We support the use of a Producer Price Index (PPI), such as that used for 'Copper materials in power and distribution transformers'.

Section 2 outlines our response in relation to the consultation questions posed by the AER. Ergon Energy is available to discuss this submission or provide further detail regarding the issues raised, should the AER require.



## 2. TABLE OF DETAILED COMMENTS

| Question(s)   | Ergon Energy Response   |
|---|---|
| <i>Changes in input costs</i>   |   |
| 1. Are the indexes listed above a relevant and accurate reflection of input price changes?  | Of the indices listed, Ergon Energy believes the 'Copper materials used in power and distribution transformers' would be most relevant to input price changes, while the 'Building construction' index would be the least relevant.   |
| 2. Should the AER rely on one PPI or a number of PPI to determine whether there has been any change in input costs estimated capital costs?   | Nil comment.  |
| 3. If a number of PPI should be used, which PPI should be used and what weighting should be applied to these indexes to reflect the changes in input costs over the last 3 years?   | Given the indices suggested, Ergon Energy considers the greatest weight should be given to 'Copper materials used in power and distribution transformers'.  |
| 4. Is the PPI the best tool to assess changes in input costs? Is there an alternative method which is more appropriate?   | An indexation based on historical data would appear to be the best tool to assess changes in input costs. However, it may be appropriate to consider development of an industry specific index which better reflects actual costs incurred. Ergon Energy acknowledges that this may be costly to produce. |
| 5. Do stakeholders consider there has been a change in input costs since 1 July 2009? If so, what is the extent of this change and how has this been determined?  | Ergon Energy believes there have been large increases in input costs since 1 July 2009, particularly in relation to transformer costs.  |
| <i>Appropriateness of cost thresholds</i>   |   |
| <p>6. Do stakeholders agree with the suggested approach to the assessment of whether cost thresholds outlined above should be changed to maintain their appropriateness? In particular:</p> <p>(a) Do stakeholders agree with the suggested approach to assessing the \$5 million cost thresholds for RIT-T exemptions in cl. 5.6.5C?</p> <p>(b) Do stakeholders agree with the suggested approach that the cost thresholds in the definition of replacement transmission network asset to be consistent with the cost thresholds for RIT-T exemptions in cl. 5.6.5C?</p> | Ergon Energy proposes that cost thresholds should be increased to maintain their appropriateness and agrees with the suggested approaches.  |



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|---|---|
| <p>(c) Do stakeholders agree with the suggested approach to assessing the cost threshold in relation to transmission investment as referred to in the definition of new network investment?</p> <p>(d) Do stakeholders agree with the suggested approach to assessing the \$35 million cost threshold in cl. 5.6.6.(y)?</p> |   |
| <p>7. If stakeholders do not agree with the suggested approach to assessing any of the cost thresholds, what approach should the AER take in assessment of whether the cost thresholds need to be changed to maintain their appropriateness?</p>  | <p>Nil comment.</p>   |
| <p>8. Are there any factors the AER should consider when assessing whether the cost thresholds outlined above should be changed in light of changes to input costs to maintain their appropriateness?</p>   | <p>Nil comment.</p>   |
| <p>9. For administrative simplicity, should the AER ensure that the cost thresholds are rounded to the nearest \$100 000 or \$500 000?</p>  | <p>Ergon Energy suggests rounding cost thresholds to the nearest \$100 000. Adopting a more coarse grain approach to rounding is likely to adversely affect outcomes.</p> |